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The Vatican's finances (Fortune, 1987)

By SHAWN TULLY February 17, 2013

Editors note: Every Sunday Fortune publishes a relevant story from our [magazine archives](#). This week, as Pope Benedict XVI prepares to hand the reins to a new leader of the Catholic Church, we turn to a 1987 investigation into the Vatican's finances.

For centuries the Vatican has projected an aura of immense, even ostentatious, wealth befitting one of the great global institutions. From the echoing vastness of St. Peter's Basilica to art treasures beyond price, the seat of Roman Catholicism is a symbol of incomparable grandeur. In an increasingly materialistic world, it evokes a moral authority that not only is felt by 840 million believers, many in Hindu, Muslim, and Communist lands, but also influences non-Catholics as well. The 263rd successor to Saint Peter, the charismatic Pope John Paul II, displays the trappings of his office as resplendently as a temporal monarch.

Having survived barbarian invasions, persecutions, countless plagues, and occasional schisms, the papacy now faces a modern-day problem: a deep financial squeeze. The costs of the Vatican's growing bureaucracy far exceed its means. Operating expenses divert contributions once set aside for the poor. Scandal has tarnished Rome's image, jeopardizing fund raising. Says John Cardinal Krol of Philadelphia, a leader in the push to put the Vatican's house in order: "This is a real crisis. Anytime your operating income fails to cover expenses, you've got a problem."

For all its splendor, the Vatican is nearly broke. Last year the Holy See, the administrative center of the Church and the spiritual capital of its members, took in \$57.3 million from sources as diverse as fees for ceremonies; income

from publications, newspaper ads, and the sale of videocassettes; and surprisingly modest investment earnings of \$18 million. With investments of some \$500 million, the Vatican commands fewer financial resources than many U.S. universities.

But the Holy See spent nearly twice as much as its income, \$114 million. Covering half the shortfall was Peter's Pence, a term that covers an annual collection for the Pope taken up in parishes around the globe as well as gifts made directly to the Pope by various donors. Formerly the Peter's Pence money went to charities and missions. To bridge the gap, the Vatican dipped into reserves composed of Peter's Pence contributions from prior years. With nearly \$50 million spent since 1984, these reserves are almost gone. Using donations once destined for the poor to rent computers and pay salaries rankles the Church's hierarchy. Says Gerald Emmett Cardinal Carter of Toronto: "I don't like the idea that the Pope has to spend his own money to balance the budget."

To make matters worse, the Holy See's main stopgap source of income — Peter's Pence — is a victim of the falling dollar. A third of Peter's Pence, traditionally collected on the feast of Saint Peter in late June, comes from the U.S. The dollar's steep slide against the lira is cutting into the proceeds. From 1985 to 1986 revenues from the collection and gifts to the Pope rose from \$28.5 million to \$32 million; measured in Italian currency, proceeds declined almost 10%.

With revenues so unpredictable, financial management is practically an act of faith. "This is no way to run a budget," snaps Cardinal Carter. For the first time in over a century, a Pope is looking for dependable new sources of income. John Paul II, not one to ignore problems of any kind, wants to enlist the help of dioceses around the world, particularly those in such affluent countries as the U.S., Canada, and West Germany.

Curiously, the Vatican finds itself in financial straits when the Church is showing new vitality around the world. After a period of decline that stretched from the late 1960s to the late 1970s, the number of Roman Catholics since 1980 has increased more than 7%. Gains are strong in rich and poor countries

alike, but the biggest increases are in the Third World. Energetic missionary work and the Pope's frequent, triumphal visits have swelled the ranks of Catholics in Africa and Asia, particularly in Nigeria and India.

PAPAL FINANCES have benefited little from this growth in numbers. While the Vatican sets doctrine and exercises strong authority over the Church's two main branches, the far-flung religious orders and dioceses, both are self-supporting from grass-roots sources. Each administrative unit of a religious order and each diocese is an independent corporation with assets that the papacy cannot touch.

Religious orders of priests, nuns, and brothers specialize in teaching, missionary work, and helping the poor. The Jesuits, for instance, are headquartered in Rome under a Superior General appointed by the Pope, and are divided into more than 80 provinces around the world for purposes of administration. Though the provinces have investment portfolios from donations and inheritances, most of their income flows from individual institutions, such as colleges, homes, and retreat houses. Jesuit teachers turn over a big chunk of their salaries to the provinces, which, in turn, use some of the money to educate young Jesuits. The provinces also send part of their income to the Superior General for the support of missions all over the world. Says Monsignor Lorenzo Antonetti, a top official in the Administration of the Patrimony of the Holy See, which handles the Vatican's investments: "People confuse our wealth with that of the Jesuits or Dominicans. That money doesn't belong to us."

Each Catholic diocese runs a network of parishes. Last year parishes helped to cover the expenses of the Archdiocese of New York by handing over \$1.1 million of their Sunday collections during the annual Cardinal's Appeal. The Archdiocese also took in at least \$50 million from collections, plus an impressive \$40 million from investments and enough from such sources as the special Committee of the Laity's fund-raising drives to balance the books. In some countries the government collects funds for the Church. Catholics in West Germany, like all self-declared churchgoers in that country, pay an official

tax to the church equivalent to 8% of their annual income taxes. Last year the "church tax" covered 76% of the Archdiocese of Cologne's \$517 million budget.

For all the financial vigor of some dioceses and religious orders, Rome gets no direct support aside from Peter's Pence. Early in his reign, Pope John Paul II recognized the Vatican's need for more income. Finding it is the task of a special council of 15 cardinals that the Pope appointed in 1981. It currently includes two Americans, Cardinal Krol and John J. Cardinal O'Connor of New York, as well as Cardinal Carter and Jaime Cardinal Sin, the influential prelate of Manila.

The panel's progress has been slow. Just as the Vatican began reaching out for support, its role in the 1982 collapse of Italy's Banco Ambrosiano conjured up an image of shady dealings and hidden wealth. "The global image of the Church has suffered," says Giuseppe Cardinal Caprio, head of the Vatican's budget office. Compounding the image problem was the Vatican's obsessive secrecy about its finances. Says Cardinal Carter: "We fought for five years for more open accounting."

A BREAKTHROUGH came this year, when the Vatican opened its books to the outside Church for the first time. In March and again in November, the council sent letters to 3,000 bishops and heads of religious orders around the world to drum up more support for Peter's Pence. Included were the financial statements of the Holy See. "If you're making an appeal," says Cardinal Krol, "credibility demands that you explain why."

Boosting collections from Peter's Pence is a temporary measure. After seven years of semiannual meetings, the council is still mulling over long-term solutions. The Pope is getting impatient, though he is not about to steep himself in the mysteries of the Vatican budget. That is the task of Agostino Casaroli, his rotund, courtly secretary of state, who by papal decree is the Vatican's administrative chief. But the Pope watches the council closely — and thinks the cardinals have fiddled long enough.

Following their meeting in March, the cardinals lunched with the Pope in his apartment in the renaissance Apostolic Palace. "The Pope goaded us to get cracking and balance the budget," says Carter. The financial ruckus, the Pope told the cardinals, is a growing distraction from his cherished role as pastor of the Church.

The Vatican comprises two separate administrations, the City-State and the Holy See. The Vatican City-State, a 108.7-acre enclave within the city of Rome — the last remnant of the once powerful Papal States — is thriving financially. Its government provides municipal services for the world's smallest sovereign nation. The City-State also maintains the Vatican Museum and runs a 200-man security force featuring a platoon of spear-carrying Swiss guards.

Last year the City-State's income exceeded its \$64 million operating budget by \$6 million. The surplus went into a reserve fund used to make lump-sum payments to retirees. Tourism is a bonanza. Some 1.8 million visitors paid \$9 million to visit the Vatican Museum last year, and many bought Vatican stamps and coins. The City-State has a knack for making deals with corporations. Michelangelo's Sistine Chapel frescoes are getting a thorough cleaning, courtesy of Nippon Television Network Corp. of Japan. The network is spending \$3 million for the exclusive right to film sections of the frescoes until 1995. Belser Verlag, a West German publishing company, recently paid the Vatican library \$4 million for permission to reproduce its illuminated manuscripts.

The Holy See is the fiscal headache. It not only rules the Church but also organizes the Pope's trips, operates 116 diplomatic missions around the world, and runs the Vatican's radio station, Radio Vatican, and its newspaper, Osservatore Romano. Carrying out policy in the Pope's name are 40 commissions, including a dozen congregations and assorted secretariats, councils, and services. One service with a staff of 13 gives small amounts of money to the parish priests of Rome who come seeking alms for beggars.

The largest and most powerful groups are the congregations, which supervise everything from missionary work to Catholic education. The 30-man Congregation for the Causes of Saints supervises the exhaustive detective work

required for canonization. The congregation names one to three saints each year, and is swamped with a backlog of 1,300 cases. It meticulously reviews evidence of holy works collected by the nominee's diocese. Since canonization requires "proof" of at least two miracles, the congregation must determine if alleged supernatural events are bona fide. Its advisory board of five physicians reviews evidence of faith healing, declaring the cure a miracle only if it can find no medical explanation.

In October the Pope canonized a Neapolitan physician named Giuseppe Moscati, who died at 46 in 1927. He treated both rich and poor; legendary opera singer Enrico Caruso was a patient. Moscati was credited with many miracles and praised by the Pope as "an example not only to admire but to imitate, particularly on the part of health workers."

POPE JOHN XXIII's Second Vatican Council, the three-year conclave of the Church's hierarchy that began in 1962, transformed the Holy See from a lean machine into a sprawling bureaucracy. The council endorsed broadening the Church's ties with other faiths and expanding the role of the laity. To carry out Vatican II's goals, the Holy See added ten new departments, including separate secretariats for relations with non-Catholic believers and non-Christians, as well as a council on family life that helps frame the Church's position on such issues as birth control.

From 1981 to 1986 the Holy See's spending almost doubled. The big culprit is labor costs, now 57% of total expenditures. In the 1960s and 1970s a docile non-union work force settled for low wages and meager raises tied to the cost of living. Members of the clergy earned less than lay employees. A nun working as a researcher, for example, made only half as much as a lay person with the same job. Some 1,700 of the Holy See's 2,300 employees are members of the clergy, while most of the City-State's 1,300 workers are not.

In 1980 lay workers threatened to strike over the right to form a union. They had the sympathy of their religious colleagues, who were fed up with low pay. The workers also found an ally in the boss. At a meeting with workers' representatives, John Paul II — a strong supporter of Poland's Solidarity union

— reminisced about his youthful stint as a miner and said he welcomed a Vatican union. Despite its name, the Association of Lay Vatican Employees represents both religious and lay employees, in the Holy See as well as the City-State.

The union has banished low wages. The Holy See's labor costs, excluding pensions, have soared from \$40 million in 1984 to a projected \$56 million this year. Under a 1985 agreement, clergy now get the same pay as their lay counterparts, though some must turn it over to religious orders in exchange for free housing and food. Vatican employees earn at least as much as many other workers in Italy. The minimum annual salary has risen to \$9,700, vs. \$8,770 for Italian civil servants. An engineer at Radio Vatican who earned \$5,580 a year in 1979 now pulls down \$17,900.

The Vatican's top brass, however, still work for peanuts. Some cardinals make as little as \$20,000 a year, and 30 Jesuits in top posts at Radio Vatican voluntarily accept the same salaries as janitors, about \$11,000. Cardinals do get lavish perks, including sumptuous apartments at bargain rents.

Pensions are a growing burden. The Vatican has no self-sustaining pension fund. Many dioceses and religious orders run portfolios built up over the years from salary deductions and employer contributions. But the Vatican pays pensions partly from a 5% salary deduction, which does not begin to cover the costs. Last year the Vatican paid out nearly \$9 million for pensions to 900 retirees, but withheld only \$1.5 million from salaries.

At a meeting in October the council of 15 cardinals weighed a proposal to create a pension fund. They dismissed the idea as far too costly. It would take a portfolio of \$127 million, the cardinals learned, to generate sufficient dividend and interest income to bridge the big pension gap. Amazingly, the union does not know that the Vatican has no pension portfolio. "We keep asking," says union president Mariano Cerullo, "but the Vatican won't tell us."

Osservatore Romano and Radio Vatican run up costs far exceeding their revenues. Neither is exactly a commercial concern. Osservatore Romano, which

sells for 70 cents a copy, accepts only a little advertising; a typical customer is Euro Clero, a retail chain that sells ecclesiastical clothing. From its own antiquated printing plant, the newspaper turns out a daily Italian edition, as well as foreign-language weeklies that it dispatches to missions and subscribers around the globe by expensive air mail.

THE RADIO STATION permits no commercials but gets revenue by selling tapes of the Pope's speeches. From giant transmission towers on the hills outside Rome, Radio Vatican broadcasts short- and medium-wave programs in 34 languages to the Soviet Union, Poland, the U.S., Japan, and more than 150 other countries. The staple is religious programming: The Pope's rosary readings in Latin are a monthly highlight.

Under cosmopolitan John Paul II, Radio Vatican has expanded rapidly. In the 1970s an English-language show called Vatican Week did little more than translate the Pope's speeches from Italian into English. Today the show features interviews with famous visitors to the Pope. Among the guests in October: Liza Minnelli, the singer, and Jose Napoleon Duarte, the President of El Salvador. Radio Vatican's enlarged news service, which has recruited 50 journalists of 20 nationalities since 1980, gathers information from around the world to report religious news and reaction to the Pope's speeches. Expanded programming, coupled with heavy spending on new transmission equipment, has pushed the station's costs from \$8.5 million in 1980 to an estimated \$17 million in 1987.

About \$800,000 of that goes for news coverage of the Pope's three or four annual trips. Aside from such coverage, the Pope's travels cost the Holy See a pittance. A case in point is John Paul II's ten-day trip to the U.S. in September. The Vatican paid the first-class air fares for the dozen members of the papal party, while the U.S. Church — and the American taxpayer — paid for everything else. Dioceses contributed \$20 million for such items as stadium rentals and cleanup costs, and taxpayers chipped in almost \$6 million, chiefly for Secret Service and police protection. The Pontiff's trip left some dioceses with large unpaid bills. The Diocese of Monterey, California, spent \$600,000. To

pay its bills, the diocese is selling off everything it purchased to help celebrate, including the lumber from the altar platform where the Pope said Mass.

If it chose, the Vatican could easily solve its financial problems by selling some of its more than 18,000 works of art. Vatican officials bristle at the idea of parting with so much as a Grecian urn to raise cash, let alone Michelangelo's Pieta or Raphael's frescoes. "They belong to humanity," says Cardinal Caprio of the Vatican's budget office. On the books, the Vatican's billions of dollars in art treasures are assigned the value of 1 lira.

Thanks to a celebrated political settlement with the Italian government earlier in this century, the Vatican has sizable investments. Nineteenth-century Popes reaped rich tax revenues as monarchs of the Papal States, a realm that encompassed Rome and much of southern Italy. But the Italians stormed Rome in 1870, seizing control of the Papal States and rendering the Pope a virtual prisoner of the Vatican. Reconciliation came in 1929, when dictator Benito Mussolini and Pope Pius XI signed the Lateran Agreements. Italy recognized the Vatican's sovereignty and, as compensation for confiscating the Papal States, paid the Vatican \$92 million.

The windfall went to construct buildings and to buy gold and securities. About half the Vatican's \$500 million in investments generate little or no income. Some \$100 million is parked in bank accounts, and the Vatican's gold hoard, bought in the 1930s at an average price of \$35 an ounce, is now worth \$100 million at \$450 an ounce. Not a single bar of the papal bullion, which sits in the vaults of the Federal Reserve Bank of New York, has ever been sold.

Measured by market value, the Holy See's prize is its real estate. It owns more than 30 buildings in Rome and elsewhere in Italy, many in superb locations. But many of those buildings are rented at very low rates or are used for church housing. "We can't turn them into hotels," says Monsignor Antonetti. The buildings are carried on the books at \$100 million, a fraction of their replacement value. Not included are dozens of Vatican embassies abroad as well as properties that produce no income at all, such as the Bambino Gesu

children's hospital in Rome and the Accademia, a huge 17th-century building near the Pantheon that serves as a school for Vatican diplomats.

THE VATICAN'S 1,700 apartments in Rome are mainly employee housing. Lay workers and clergy can rent a studio near St. Peter's Square for \$150 a month, less than half the going rate. The congregations and other departments of the Holy See occupy Vatican-owned offices in Rome rent-free. Congregations take up three floors at the sprawling San Calisto apartment and office complex in the trendy, high-rent neighborhood of Trastevere. On the fourth and top floors, cardinals and other high-ranking employees pay less than \$200 a month for sumptuous, 3,000-square-foot apartments that would rent for \$2,000 a month on the open market.

One reason rents are low is that the Vatican obeys Italy's often ignored rent control laws. Says one Church official: "We're probably the only organization in Italy that takes rent control seriously." All told, the Holy See collects \$4.6 million a year in rents but nets only \$2.7 million after paying for maintenance.

The Vatican earned some \$15 million last year from its portfolio of more than \$150 million in stocks and bonds, and in interest on bank accounts. Money management has been archconservative since the turn of the century, when Pope Leo XIII hid the Vatican's liquid wealth — a trunk crammed with gold coins — under his bed. The Administration of the Patrimony of the Holy See (APSA), which doubles as the Vatican's treasury, handles the financial investments. Most of

APSA's 26-man staff are lay professionals. APSA's top money manager is Benedetto Argentieri, formerly a market researcher at the Common Market's Banque Europeenne d'Investissement in Brussels. Soft-spoken and cultivated, Argentieri is an avid collector of 16th-century mannerist art. He occupies a marble-floored salon with 30-foot-high vaulted ceilings in an ornate 19th-century palace.

Argentieri and his team of four traders manage some \$100 million in U.S. and Italian government and corporate bonds. The \$50 million balance is spread

among 100 stocks, including such Italian blue chips as automaker Fiat and insurer Generale Assicurazione, a stock the Vatican has owned for more than 30 years. The Vatican has a firm policy against holding majority stakes. In the 1960s it controlled Immobiliare Roma, builder of the Watergate Hotel in Washington and a producer of bathtubs. The Vatican took a bath. Says Argentieri: "Every time the company needed capital to cover losses or workers threatened to strike, Pope Paul VI just gave it the money to avoid bad publicity."

The conservative strategy paid off during the worldwide stock market crash in October. Heavily invested in gold and bonds, the Vatican lost only \$3 million.

The Vatican got by on APSA's investment earnings until the 1960s, when it started dipping into current Peter's Pence revenues. By 1981 the deficit outgrew even this source. To scrape by, the Vatican started tapping reserves set aside from prior years. Meanwhile the deficit kept rising.

Until the early 1980s the Pope could count on another source of income — earnings from the Institute for Religious Works, better known as the Vatican Bank. The bank belongs to the Pope, not the Holy See, and is so secretive that the council of cardinals does not know how much it turns over to the Pope each year. But it's far less than in the past. The bank paid a huge settlement from its own capital as a result of its murky role in the 1982 collapse of Banco Ambrosiano. In 1984 and 1985 it remitted no dividends to the Pope. Today the bank is said to be earning only around \$3 million or \$4 million, a fraction of its income in the 1970s.

The bank is a sort of holy savings and loan institution. Its depositors, among them religious orders and Vatican employees, receive paltry interest. The bank lends money at bargain rates to dioceses and religious orders all over the world for the construction of schools and churches. It also generates income by placing a chunk of its deposits in short-term government securities and in accounts at other banks. For all its notoriety, the bank is amazingly unpretentious. Tucked away in a medieval tower that once served as a dungeon, it has no branches, no MBAs, and just 13 employees.

Still heading the bank is Archbishop Paul Marcinkus, a strapping native of Cicero, Illinois, who once served as a papal bodyguard and wields an oversize Prince tennis racket on the Vatican courts. He apparently got involved with the wrong people. In the early 1970s Marcinkus started doing business with Roberto Calvi, president of Banco Ambrosiano of Milan. Before World War II the bank demanded that potential depositors present baptismal certificates to prove they were Catholic. The Vatican Bank bought shares in Banco Ambrosiano and made big deposits at premium interest rates.

Banco Ambrosiano's Luxembourg subsidiary set up ten shell companies in Panama in the late 1970s. The companies were nominally controlled by the Vatican Bank, but whether the bank really owned them is still not clear. Calvi ran them. At the outset he lent \$1.3 billion — \$600 million of it borrowed from 120 foreign banks — to the shell companies, which used the money to manipulate the stock of Banco Ambrosiano to push up its price and to buy big stakes in other companies. Much of the \$1.3 billion vanished when the stock collapsed.

WITH THE REGULATORS closing in, Calvi asked the Vatican Bank to help him out by supplying proof that it had backed the ten Panamanian companies. It was then, claims Marcinkus, that the bank got the shocking news about the loans. The Vatican decided to give Calvi a year to resolve the tangle. It wrote "letters of patronage" stating that, directly or indirectly, it controlled the ten companies. In return, Calvi furnished a letter acknowledging that Banco Ambrosiano, not the Vatican Bank, owed the \$1.3 billion.

Calvi, ruined by the episode, was found hanging by the neck under London's Blackfriars Bridge in 1982. Whether his death was suicide or murder remains a mystery. His demise triggered the collapse of Banco Ambrosiano. Seizing on the letters of patronage, the creditor banks demanded that the Vatican Bank reimburse them and threatened to drag the Vatican to court. Under pressure from the Italian government, the Vatican Bank in 1984 coughed up \$244 million without admitting wrongdoing. The affair appears to be closed. In July the Italian supreme court nullified an arrest warrant for Marcinkus on the

ground that Italy has no jurisdiction on Vatican soil. "I may be a lousy banker," Marcinkus once said, "but at least I'm not in jail."

The passing of the scandal, coupled with the Vatican's increased openness about its finances, may have set the stage for an improvement in papal finances. This year proceeds from Peter's Pence should reach a record \$40 million, up 25% from last year. The council of cardinals believes it can do even better by changing the name Peter's Pence, a centuries-old term that means pennies for the Pope. "I don't like names that don't reflect what's happening," says Carter. The council also feels that Peter's Pence implies small change to most Catholics, when the Vatican is looking for large contributions. So far most of the proposed substitutes sound uninspiring: Aid to the Holy Father, Papal Support, and Papal Charity.

Whatever the name, this source alone will not balance the budget. In the long run the cardinals want to provide the Vatican with an additional, predictable income of up to \$40 million a year. Unlike the Pope's discretionary funds, this revenue would be set aside to pay the Vatican's operating expenses. It would free up the money the Pope receives in gifts and earnings from the Vatican Bank for its original purpose, charity.

THE CARDINALS are divided on where the money should come from. Under a plan championed by Krol and O'Connor, churches in different countries would raise money from wealthy Catholics to establish a foundation that would send its yearly income to the Pope. Cardinal Carter's camp opposes the idea. "It would give undue power and sway to a few rich people," he says. "We don't want the Church run by the elite." He would set a yearly goal for the Church's national organizations, or bishops' conferences. To meet their targets, each conference would hold an annual fund drive for the Pope.

As the Vatican reaches out for financial help, Catholics the world over are wondering how this source of pomp and inspiration, the heart of the universal Church, could have fallen on such hard times. Put off by the scandals and secrecy, and misled by the illusion of wealth, Catholics are finally getting the whole truth. If the cardinals will lead, the faithful should follow.